

## Message Text

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ACTION FBOE-00

INFO OCT-01 ARA-10 ISO-00 L-03 FSE-00 ABF-01 /015 W

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R 090030Z MAR 76

FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 3481

UNCLAS SECTION 1 OF 2 MEXICO 3082

E. O. 11652: N/A

TAGS: ABLD, AFSP, MX

SUBJECT: LTL CONTRACT NEGOTIATIONS GUADALAJARA AND TIJUANA CG OB'S

REF: MEMO 2/3/76 FBO TO EMBASSY MEXICO

1. IN RECENT DAYS EMBASSY OFFICIALS HAVE HAD THREE MEETINGS WITH MARHNOS REPRESENTATIVES IN EFFORT CLARIFY TERMS OF AMENDED LEASES PREVIOUSLY APPROVED BY FBO FOR HANDLING ADMINISTRATIVE COSTS MANAGING CONSULATES GENERAL OFFICE BUILDINGS AT GUADALAJARA BEGINNING IN MAY, AND AT TIJUANA BEGINNING IN JUNE.

2. MARHNOS REPRESENTATIVE REPORTEDLY WILL FLY WASHINGTON NEXT FORTNIGHT TO PRESENT ADDITIONAL INFORMATION REQUESTED BY FBO. MEANWHILE, MARHNOS PRPARING LIST ADMINISTRATIVE EXPENSES WHICH IT IS PREPARED TO PAY IN ACCORDANCE WITH THEIR INTERPRETATION OF THE AMENDED LEASE. THIS INFORMATION WILL FACILITATE ITEM BY ITEM, CATEGORY BY CATEGORY COMPARISON WITH OUR AND FBO CONCEPT OF CONTRACT PROVISIONS.

3. IN SIMPLEST FORM, MARHNOS BELIEVES IT SHOULD PAY ADMINISTRATIVE EXPENSES TOTALING BUT FIFTEEN PERCENT OF THE GROSS ANNUAL RENT; HOWEVER, RATHER THAN DEBATE DETAILS AND CLASHING INTERPRETATIONS COMPANY WILLING ABSORB EXPENSES AMOUNTING TO TWENTY PERCENT OF THE GROSS ANNUAL RENT. MOREOVER, WHILE MARHNOS WILL ACCEPT AND PAY BILLS UP TO THAT AMOUNT, COMPANY SUGGESTS FOR COMMON SENSE EFFICIENCY AND INDEPENDENCE IN OPERATIONS THAT COMPANY HAND BACK TWENTY PERCENT OF THE ANNUAL RENTS SO THAT EMBASSY CAN OPERATE

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BUILDINGS AS IT SEES FIT AND PAY ALL ADMINISTRATIVE EXPENSES IN COORDINATED MANNER.

4. THE DIFFICULTY WE ARE ENCOUNTERING STEMS FROM THE SOMETIMES BROAD AND HENCE VAGUE PHRASES USED IN THE CONTRACTS. FOR EXAMPLE, MARHNOS, IN KEEPING WITH MEXICAN CUSTOM, INTERPRETS TELEPHONE SERVICES AS MEANING COMPANY PAYS BASIC COST OF OPERATING ONE LINE TO THE CG RECEPTIONIST. OTHER LINES WHICH SERVE OUR GENERAL PURPOSES WOULD BE FOR OUR ACCOUNT, AND OF COURSE, MARHNOS WOULD NOT FEEL OBLIGED TO PAY FOR LONG DISTANCE CHARGES.

5. AS REGARDS CLEANING AND JANITOR SERVICES, MARHNOS PRESENTS CASE FOR COMPANY RESPONSIBILITY TO BE LIMITED TO PUBLIC AREAS. UNDER THAT CONCEPT COMPANY FEELS IT WOULD BE ADEQUATE (PROBABLY WITH ONE MAN) TO MAINTAIN ENTRANCES, SIDEWALKS, STAIRS, HALLS, AND BATHROOMS USED BY PUBLIC. READING ARTICLE TEN SUGGESTS SOME RATIONALE FOR THEIR POINT VIEW. THEY DO NOT SEE THEMSELVES OBLIGATED TO CLEAN THE CONSUL GENERAL'S OFFICE OR ANY AREAS UTILIZED BY CONGEN PERSONNEL, YET EMBASSY SEES LATTER AREAS AS INTEGRAL PART OVERALL CLEANING OPERATIONS.

6. SIMILARLY, MARHNOS CONCEPT OF SECURITY VARIES FROM OURS AND THEY PROPOSE TO KEEP CERTAIN CEILINGS ON THIS FACTOR. THEY ALSO WISH TO ESTABLISH CERTAIN CEILINGS ON UTILITIES, CLAIMING THAT IT WOULD BE UNFAIR, FOR EXAMPLE, TO ASSUME THAT THEY MUST PAY OPEN END ELECTRICITY AND POWER BILL JUST BECAUSE WE CHOOSE FOR OUR CONVENIENCE AND PURPOSES TO WORK SEVERAL HOURS AT NIGHT OR WEEK-ENDS.

7. DESPITE PROLONGED EXCHANGES OF VIEWS, WE ARE STILL AT ODDS. SINCE EMBASSY DID NOT PARTICIPATE NEGOTIATIONS IT IS NOT CLEAR EXACTLY WHAT NEGOTIATORS HAD IN MIND WHEN SUCH ITEMS AS TELEPHONE, ELECTRICITY, CLEANING, JANITOR AND GUARD SERVICES WERE TALKED ABOUT AND INSERTED INTO THE CONTRACT.

8. AS POSSIBLE ASSISTANCE IN SEEKING UNDERSTANDING, EMBASSY LISTS BELOW MINIMUM AND MAXIMUM COST LEVELS FOR VARIOUS CATEGORIES OF ADMINISTRATIVE SERVICES. IT WOULD BE MOST HELPFUL IF FBO AND ARA REPRESENTATIVES COULD MEET, AGREE WHICH EXPENSES ARE INTENDED FOR MARHNOS.

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9. TIJUANA BUILDING ESTIMATED OPERATING COSTS FY 1976 ARE:

ELECTRICITY	U.S. \$6,780.00	
WATER	1,950.00	
TELEPHONE(ALL CHARGES LOCAL TRUNK LINES BUT EXCLUDING LONG DISTANCE)		3,000.00
SPACE HEATING	350.00	
GUARD SERVICE(CONTRACT)		4,000.00
CLEANING SUPPLIES	300.00	
GARDEN SERVICES AND SUPPLIES		300.00
SUB-TOTAL	16,680.00	

10. ADDITIONALLY, CONGEN TIJUANA HAS FIVE DIRECT HIRE  
FSL BUILDING MAINTENANCE EMPLOYEES WITH FY-76 SALARY AND BENEFIT  
COSTS AS FOLLOWS:

BLDG. MAINTENANCE TECH FSL 6/5	7,765.00
JANITOR FSL 2/3	3,500.00
JANITOR FSL 3/2 30 PERCENT OF TIME	1,640.00
JANITOR FSL 3/2 50 PERCENT OF TIME	2,750.00
JANITOR FSL 2/3 30 PERCENT OF TIME	1,137.00
SUB-TOTAL	\$16,792.00

11. HENCE TIJUANA COSTS, UNDER THIS BREAKDOWN(9 AND 10),  
TOTAL \$33,472.00.

12. AS ALTERNATIVES TO COLLECTING ONLY SALARIES AND EXPENSES SET  
FORTH IN PARAGRAPH 10 ABOVE, WE COULD INSTEAD CHARGE MARHNOS  
PRESENT SHARED ADMINISTRATIVE SUPPORT COSTS OF \$1.04 PER  
SQUARE FOOT(27,397.767\* 1. FT. IN CG BUILDING), OR TOTAL 28,493.67  
INSTEAD OF \$16,792.00 DERIVED NO. 10 ABOVE.

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13. IN SUM, UNDER OLD LEASE MARHNOS ENTITLED RECEIVE \$43,516.44  
(27,997.76 SQUARE FEET TIMES \$1.59), WHILE UNDER AMENDED LEASE,  
COMPANY RECEIVES \$106,851.26 (27,397.76 SQ.FT. TIMES ESTIMATED \$3.90)  
OR INCREASE \$63,334.82. IN RETURN, CONTRACT AMENDMENT PROVIDES  
MARHNOS WILL NOW PAY \$16,680.00 BUILDING OPERATING COSTS, PLUS  
EITHER DIRECT FSL SALARY COSTS OF \$16,792.00 OR SHARED ADMINI-  
STRATIVE COST OF \$28,493.67. IF WE USE DIRECT SALARY METHOD  
COMPUTATION, MARHNOS ENDS UP WITH \$73,379.26 OR NET RENTAL GAIN  
OF \$29,862.82. IF WE USE SHARED ADMIN FORMULA(WHICH INCLUDES A BIT  
FOR AMERICAN SALARIES AND EXPENSES OF ADMIN PERSONNEL BOTH AT  
CONGEN AND AT EMBASSY) MARHNOS ENDS UP WITH NET ANNUAL RENTAL GAIN

OF \$18,161.15.

14. AS REGARDS GUADALAJARA, ESTIMATED BUILDING OPERATING COSTS FY1976

ARE:

ELECTRICITY	\$15,600.00
WATER	600.00
GAS (PROPANE)	300.00
TELEPHONE COSTS(EXCLUDING LONG DISTANCE TOLL CHARGES)	2,600.00
CLEANING SUPPLIES	1,000.00
GUARD SERVICES	2,500.00
SUB-TOTAL	\$22,600.00

15. ADDITIONALLY, WE HAD DIRECT HIRE FSL SALARY AND EXPENSES

COSTS AS FOLLOWS:

MAINTENANCE SPECIALIST 8/3	8,841.00
SENIOR MAINTENANCE CLERK 3/5	3,571.00
SENIOR GUARD 2/7	3,800.00
GUARD 1/5	2/347.00
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SENIOR JANITOR 3/10	3,400.00
JANITOR 1/8	2,560.00
JANITOR 1/2	1,741.00
SUB-TOTAL	26,260.00

16. HENCE, TOTAL COSTS(PARAGRAPHS 14 AND 15) ARE \$45,772.00.

17. HERE AGAIN WE HAVE A CHOICE, I.E. EITHER USE COSTS PARAGRAPHS

14 PLQST 15, OR DISCARD DIRECT-HIRE COSTS (PARA. 15)

AND SUBSTITUTE \$1.04 SQ. FT. METHOD

WHICH CALCULATES TO \$33,944.00 (32,638 SQ. FT. TIMES

\$1.04). WHILE MARHNOS RENTS JUMPS FROM PRESENT

\$51,894.00 TO \$127,288.00, WE EITHER SUBTRACT

\$48,860.00 (14 PLUS 15) LEAVING PROFIT MARGIN

\$78,428.00 OR GAIN \$26,534.00 ANNUAL RENT, OR SUBTRACT

\$56,544.00 (PARA. 14 PLUS \$33,944.00-I.E.,

\$1.04 FORMULA) LEAVING ANNUAL PROFIT \$70,744.00

OR A NET GAIN IN NEW CONTRACT OVER OLD OF \$18,850.00.

18. WHATEVER APPROACH WE USE EMBASSY ABOVE

CALCULATIONS MAKE IT OBVIOUS EVEN 20 PERCENT WHICH

MARHNOS PROPOSES TO PAY IS SHORT OF ACUTAL

ADMINISTRATIVE COSTS AS MEASURED AT THIS TIME. TWENTY

PERCENT NEW TIJUANA RENT IS \$21,370.24 WHEREAS

ADMINSTRATIVE COSTS RUN MINIMUM \$33,472.00

(31 PERCENT) OR MAXIMUM \$45,173.67 (42 PERCENT).

TWENTY PERCENT GUADALAJARA RENT IS \$25,457.60 WHEREAS

ADMINISTRATIVE COST RUNS MINIMUM \$48,860.00

(38 PERCENT) OR MAXIMUM \$56,544.00 (44 PERCENT).

19. QUESTIONS AND CONSEQUENCES:

A) DO WE DISCHARGE OUR FSL EMPLOYEES AT TIJUANA AND GUADALAJARA AND MAKE MARHNOS HIRE THEM OR OTHERS? IF SO, WE SHALL INCUR SEVERANCE VVVVVVPAY/ACCUMULATED LEAVE PAYMENTS OF ESTIMATED \$43,000.00. THERE IS NO DOUBT MOST EMPLOYEES, SOME WITH LONG TENURE, MOST ANXIOUS RETAIN STATUS WITH USG.

B) THE ABOVE BUILDING OPERATING/ADMINISTRATIVE ESTIMATES APPLY ONLY FY-1976. WHAT ABOUT INFLATION? IN MEXICO INFLATION RATE CALENDAR 1975 WAS 14.9 PERCENT (DEC. 74 VS. DEC. 75).

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WHAT DO WE DO ABOUT THE SOCOND THROUGH FIFTH YEARS OF CONTRACT: FORCE MARHNOS TO ABSORD THESE ESCALATED CHARGES?

C) WOULD THE DEPARTMENT FIND LEGALLY ACCEPTABLE AN ARRANGEMENT WHERE MARHNOS PAID EMBASSY FLAT PERCENTAGE OF RENT (BE IT 20 PERCENT MARHNOS SUGGESTS OR UP 41 PERCENT WHICH IT IS FOR GUADALAJARA) SO THAT EMBASSY COULD COORDINATE (WHICH IT PREFERS) OWN ADMINISTRATIVE AFFAIRS AT TIJUANA AND GUADALAJARA? OR, IS IT ESSENTIAL BILLS BE PAID DIRECTLY BY MARHNOS?

D) DOES MARHNOS HAVE A POINT CONCERNING TELEPHONES? SHOULD THEY PAY COST OF BUT ONE TRUNK LINE (THEORETICALLY TO RECEPTIONIST) OR COST OF ALL TRUNK LINES? EMBASSY AGREES IT WOULD BE UNFAIR TO CHARGE LONG DISTANCE CALLS TO MARHNOS. IF COMPANY PAYS FOR BUT ONE TRUNK LINE, THE FY-1976 TELEPHONE CHARGES AT TIJUANA WOULD BE REDUCED FROM \$3,000.00 TO \$300.00 AND AT GUADALAJARA FROM \$2,600.00 TO \$260.00.

20. AFTER ASSESSMENT OF THESE PROBLEMS, IN THE LIGHT OF NEW INFORMATION BEING SUBMITTED BY MARHNOS, AND AFTER ARA AND FBO CLARIFY WHICH COSTS HENCEFORTH INTENDED FOR MARHNOS' ACCOUNT, REQUEST URGENT GUIDANCE TO END OPERATING PROCEDURES SATISFACTORY TO BOTH PARTIES CAN BE AGREED UPON NOT LATER THAN APRIL 1. JOVA

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